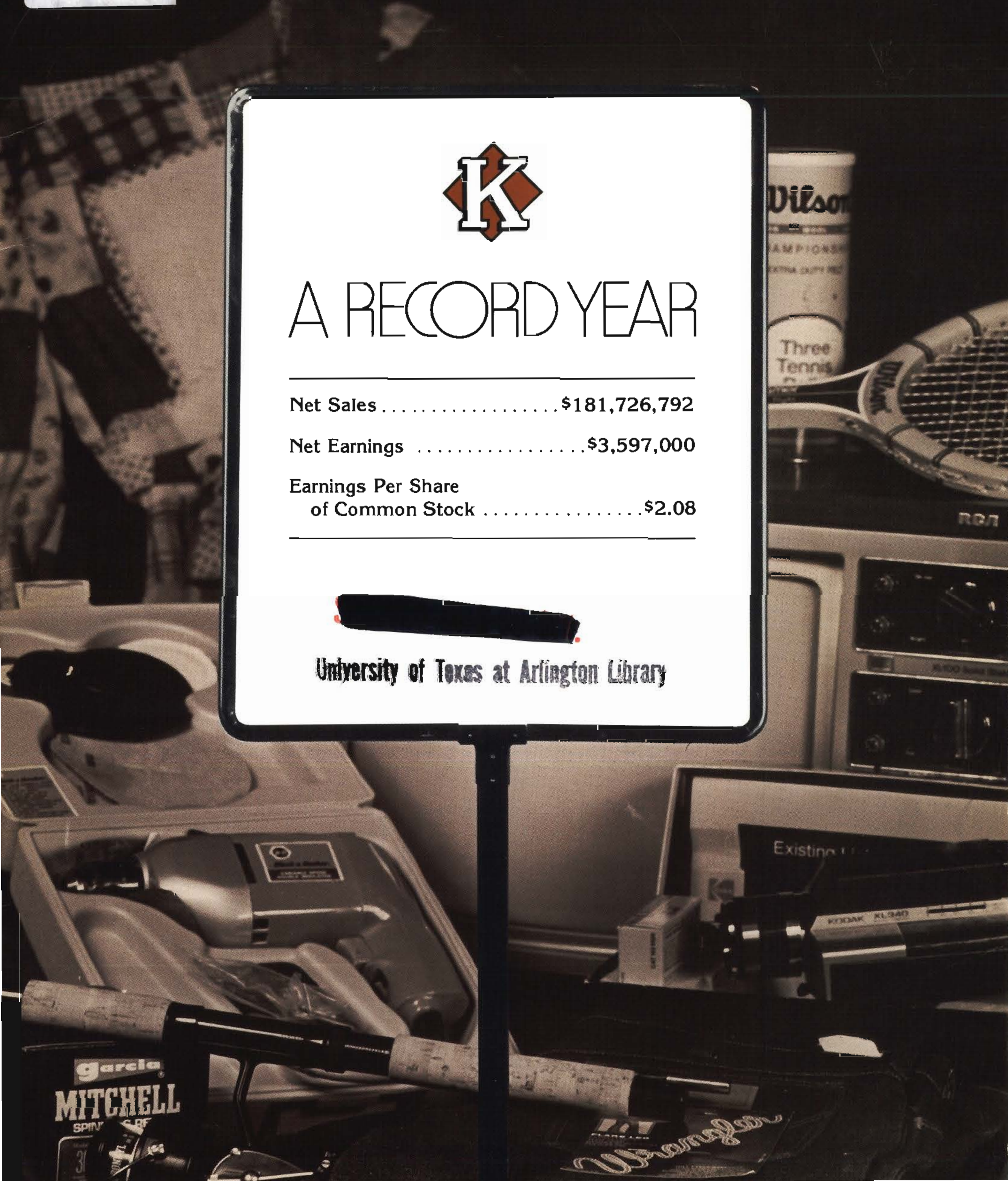
Kuhn's-Big K Stores Corp. Annual Report 1975



A RECORD YEAR

Net Sales $181,726,792

Net Earnings $3,597,000

Earnings Per Share of Common Stock $2.08

[redacted]

Description Of Business And Common Stock Information

Kuhn's-Big K Stores Corp., founded in 1913 in Columbia, Tennessee, and incorporated in 1946, is presently a third generation business engaged in the operation of Big K discount department stores and Kuhn's Variety stores in a seven-state region of the Southeastern United States.

Kuhn's-Big K Stores Corp. is based in Nashville, Tennessee, where it maintains two warehousing and distribution facilities. The Company also owns property in MetroCenter, Nashville, on which it plans to construct a new distribution center.

As of December 31, 1975, the Company operated 70 Big K outlets and 26 Kuhn's Variety units in Alabama, Arkansas, Georgia, Kentucky, Mississippi, Missouri and Tennessee. All stores are located within a radius of slightly more than 300 miles from the Nashville headquarters. The majority of the Company's sales are generated through the Big K discount department stores, which accounted for 94.9 percent of total sales during 1975.

The common stock of Kuhn's-Big K Stores Corp. is traded on the American Stock Exchange under the ticker symbol KBK. High and low price quotations and dividend distributions for the past two fiscal years are shown below.

1974	High	Low	Dividend Per Share
1st Quarter	7 1/8	5 1/2	$.025
2nd Quarter	6 7/8	4 3/4	$.025
3rd Quarter	4 3/4	2 7/8	$.025
4th Quarter	3 3/8	2	$.025

1975	**High**	**Low**	**Dividend Per Share**
1st Quarter	**5 3/8**	**2 3/8**	**$.025**
2nd Quarter	**5 3/4**	**4 3/8**	**$.025**
3rd Quarter	**8 1/8**	**5**	**$.025**
4th Quarter	**11 3/8**	**6**	**$.025**

43

Contents

ANNUAL MEETING

The annual meeting of stockholders will be held at 11:00 a.m., on April 12, 1976, in the Company's Executive Offices at 3040 Sidco Drive, Nashville, Tennessee.

10-K REPORT

A copy of Kuhn's-Big K Stores Corp. 10-K Annual Report, including the financial statements and schedules thereto, when filed with the Securities and Exchange Commission for year 1975, can be obtained by stockholders without cost by writing to:

Carl L. Goldstein, Vice President and Treasurer
Kuhn's-Big K Stores Corp.
3040 Sidco Drive
Nashville, Tennessee 37204

To Our Shareholders:

The year 1975 was a superlative period, one in which operating results reached record levels, with net earnings up 112.3 percent over the previous twelve-month period. We are extremely pleased with the outstanding turnaround recorded during the past year and with the prospects for 1976.

Record Sales and Earnings

For the year ended December 31, 1975, sales gained 21.1 percent, reaching $181,726,792. This compares to the previous sales record of $150,026,373 achieved in 1974. Of particular significance in 1975 is the fact that sales in comparable stores (stores open during all of 1974 and 1975) increased 13.7 percent. Management views this as an indication that our existing markets are continuing to experience positive economic growth.

Net earnings for the year also increased sharply, rising from $1,694,500 to $3,597,000. On a per share basis, earnings reached $2.08, up dramatically from the $.97 achieved in the prior year.

The Company has adopted a new method of stating its inventories. Effective January 1, 1975, the Company is stating its inventories at the lower of cost, as determined under the LIFO (last-in, first-out) method or market. The Company made this change to achieve a better matching of cost and revenues under current inflationary conditions. This change to LIFO cost had no effect on 1975 earnings for financial statement purposes, since market was lower than LIFO cost.

Additional Financial Gains

Throughout the year, your Company continued to meet the challenges presented and completed the year in a strong financial position. At year end, working capital increased 11.8 percent from $23,528,539 to $26,303,862. Common stockholders' equity rose 18.6 percent to $21,621,281 from $18,224,540, and return on common stockholders' equity grew to 16.5 percent from 9.14 percent. No new long-term financing was arranged during 1975. Feasibility studies are presently being conducted for potential financing of the new headquarters facility planned for MetroCenter in Nashville. In the opinion of management, current financial arrangements are sufficient to accommodate planned store expansion over the next 18-month period.

Kuhn's-Big K Stores Corp. is committed to increase average sales per store. This has and will continue to be accomplished by an aggressive marketing and merchandising program. In 1975, this program produced a substantial gain in average sales per store. At year end, the average sales per unit, based on an average of stores in operation throughout the year, amounted to $2,503,843 (67 Big K stores) and $361,870 (26 Kuhn's Variety stores). Based on an average of stores in operation throughout 1974, this compares to $2,242,000 (57 Big K Stores) and $330,000 (27 Kuhn's Variety stores).

Dividends

Kuhn's-Big K Stores Corp. continued its policy of uninterrupted div-

Comparative Highlights

	Year Ended December 31,	
	1975	1974
Net Sales	**$181,726,792**	$150,026,373
Net Earnings	**3,597,000**	1,694,500
Earnings Per Share of Common Stock (1)	**2.08**	.97
Average Number of Common Shares Outstanding	**1,714,878**	1,714,878

	Three Months Ended December 31,	
	1975	1974
Net Sales	**$ 68,061,748**	$ 52,364,424
Net Earnings	**2,483,000**	1,604,500
Earnings Per Share of Common Stock (1)	**1.45**	.93
Average Number of Common Shares Outstanding	**1,714,878**	1,714,878

(1) After provision for preferred stock dividend

idend payments which began in 1946. Quarterly cash payments in the amount of $.025 per common share were paid for a total of $.10 for the full year. The Board of Directors will continue to prudently consider the dividend rate at each of its quarterly meetings in 1976.

Outlook

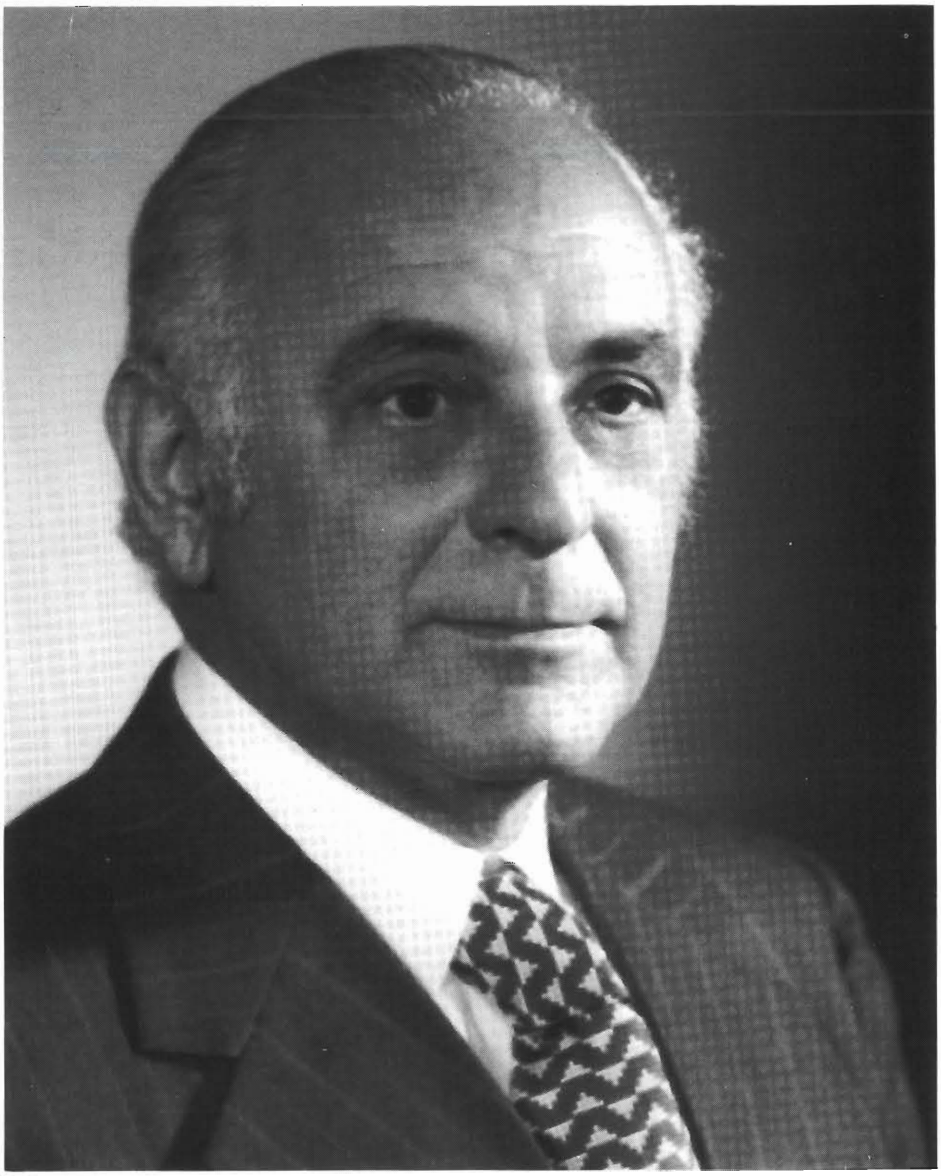
Your Company has a proven track record of maintaining a thorough, in-depth knowledge of its markets and the people in them. Because of this philosophy, a growing shopper loyalty has been established which has provided the Company with distinctive competitive strength in its operating region.

While it is always difficult to foresee what lies ahead for the long-term future, the prospects for continued gains for the shorter-term appear favorable. During the past five years, the Company has operated at a loss in the first quarter, then moved toward a position of profitability during the second and third quarters, with more than a third of sales and two thirds of earnings realized in the fourth quarter.

Early indications in 1976 point to a continued improvement in the economy, particularly in the marketing areas we serve. We believe that the sudden downturn experienced by the retailing industry in 1974 and during the first few months of 1975 has ended, and that favorable conditions will prevail in 1976, enabling us to achieve another successful year of financial growth.

We invite you to review the following pages for an in-depth report of 1975, our operating gains, progress of our expansion program, and an examination of our management capabilities.

We are grateful for the confidence of our stockholders and loyalty of our employees. We will continue to pursue a program of orderly growth and expansion which should strengthen our corporate position and protect the interests of our stockholders.



Respectfully submitted for the Board of Directors,

Jack W. Kuhn
President

Year In Review

The year 1975 represents a milestone period for Kuhn's-Big K Stores Corp. Management met the challenges of economic recession with profound success, resulting in an overall strengthening of the Company's financial position. The following quarter-by-quarter review highlights the year's accomplishments.

First Quarter

The decline in consumer spending which adversely affected operating results of Kuhn's-Big K Stores Corp. in 1974 continued into the first quarter of 1975, as the Company reported a disappointing loss of $581,000, or $.36 per common share. While an operating loss is traditionally experienced during the first quarter, management reduced emphasis on the Company's rapid expansion program and began concentrating on improving productivity in terms of sales per square foot in all existing stores. Sales for the period ending March 31 climbed 8.5 percent over the first period of the previous year.

Second Quarter

Concentrated efforts to reduce inventory levels from the prior year, favorable weather conditions, a federal income tax rebate to consumers, an aggressive promotional program and preliminary indications of improving economic conditions resulted in substantially improved operating results at mid-year. Second quarter earnings reached $831,000, or $.49 per share. Net earnings for the January-June period amounted to $250,000, or $.13 per share. This compared to a loss of $175,000, or $.12 per share, for the corresponding six-month period of 1974. Sales for the first half amounted to $68,565,810, up 11.8 percent from $61,352,802 at June 30, 1974.

Third Quarter

Increased emphasis on the Company's marketing programs through more extensive circular advertising, along with greater efficiency in merchandising and improved turnover and inventory balance, highlighted management's efforts to produce further improvement in operating results. At September 30, 1975, cumulative net income reached a record $1,114,000, or $.63 per common share, up from $90,000, or $.04 per common share, for the same nine-month period in the previous year. Sales amounted to $113,665,045, a gain of 16.4 percent over the $97,661,949 reported for the first three quarters of the prior year.

Fourth Quarter
Climax Of A Banner Year

By all measurements, the fourth quarter, traditionally the strongest in the retailing industry, produced the most outstanding operating results in the history of Kuhn's-Big K Stores Corp. Indications of economic recovery produced enthusiasm in the consumer's mood and boosted sales and earnings to all-time highs. Net earnings for the concluding three months of 1975 increased 54.8 percent to $2,483,000 on record sales of $68,061,748. This compared to net earnings of $1,604,500 on sales of $52,364,424 in 1974. Sales for the month of December, alone, rose 34.3 percent, one of the highest increases recorded by a company in the retailing industry.

Sales in the Company's 70 Big K discount stores reached all-time highs for the 21st consecutive year in 1975. At year end, sales amounted to $181,726,792, an increase of 21.1 percent over the previous year.

Financial Overview

Management's ability to shift emphasis from a program of rapid expansion to one of intensified marketing, merchandising and inventory control in existing stores resulted in record-setting operating results in 1975.

The 21.1 percent sales increase recorded by Kuhn's-Big K Stores Corp. in 1975 marked the 21st consecutive year in which sales reached new highs. Over the past seven years (see seven-year financial summary), sales have risen at an average annual compound rate of 27 percent.

Net earnings in 1975 rose 112.3 percent to $3,597,000, or $2.08 per share, from $1,694,500, or $.97 per share, a year earlier. This marked the second time in the past three years that net earnings have reached an all-time high.

Severe inflation, economic pressures and consolidation problems from a rapid three-year expansion program (37 stores opened) caused a deterioration of profit margins during 1974, however, an excellent recovery was achieved in this operating area in the year just ended. Net earnings as a percent of total sales increased from 1.12 to 1.98.

Total long-term debt at December 31, 1975, amounted to $6,998,750, or approximately 31.76 percent of total shareholders' investment, versus 40.24 percent at the end of 1974. The ratio of current assets to current liabilities (working capital) remains strong in the face of the increases in activity, standing at 2.65 to 1, compared to 2.93 to 1 in the previous year.

Kuhn's-Big K Stores Corp. will continue to pursue a program of aggressive marketing and merchandising. These efforts should further strengthen the Company's organizational base, enabling it to capitalize on the potential of new and existing markets.

While reinforcement of retailing operations at existing locations, which brought about a substantial improvement in sales per square foot at Big K discount department stores and Kuhn's Variety stores, received maximum emphasis in 1975, the Company's overall expansion program moved forward at an orderly rate.

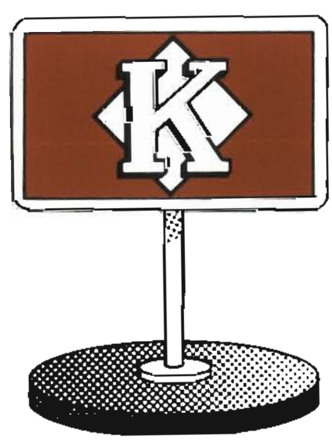
Three new Big K discount department stores were opened during the year, bringing the total number in operation at year end to 70. Included were stores in Tuscaloosa and Huntsville, Alabama; and Frankfort, Kentucky. The Company has signed leases to operate Big K stores in Alexander City, Scottsboro and a second store in Huntsville, Alabama; Lenoir City, Tennessee; Calhoun, Georgia; and Middlesboro, Kentucky. Opening dates are scheduled for late 1976 or early 1977.

In addition to Big K units opened or planned in new shopping centers, the Company has focused attention on other promising markets by signing leases to occupy stores at former W. T. Grant locations. Leases have been signed to operate Big K stores at previous W. T. Grant sites in Sylacauga, Alabama; Carrollton and Cedartown, Georgia; and Mayfield, Bardstown and Hopkinsville, Kentucky. The Hopkinsville unit will replace the Company's first Big K store opened in that city in 1962. These stores are now either open or in advanced stages of preparation for opening. All are located in established shopping centers with excellent traffic flow and drawing power and are expected to be strong contributors to sales and profits of the Company's Southeastern chain.

	*Big K stores	Variety stores
Average sales per sq. ft. (1974)	$46.50	43.00
Average sales per sq. ft. (1975)	$52.14	$45.26

*Total ground area (including non-selling)

Three new Big K discount department stores were opened in 1975. Included were stores in Tuscaloosa and Huntsville, Alabama; and Frankfort, Kentucky.



Management

The management organization structure of Kuhn's-Big K Stores Corp. is unique in that the Company's four senior officers, Jack W. Kuhn, Gus D. Kuhn, Gilbert S. Fox and Carl L. Goldstein, work as an executive team. Reporting directly to members of senior management are buyers, district superintendents and department heads in charge of the Company's various operating areas. Jack W. Kuhn, president (above left) and Hollis L. Balleu, buyer. Gus D. Kuhn, vice president (above right) and John R. Mott, director of advertising.

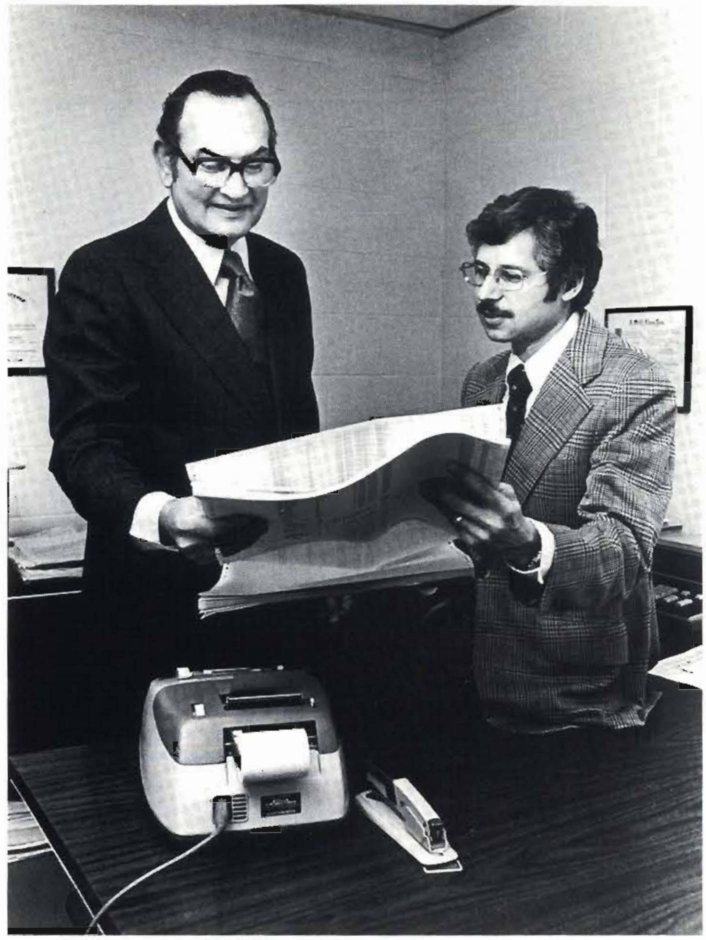
The management organization of Kuhn's-Big K Stores Corp. is evenly balanced at all levels to provide a broad base of experience and expertise.

The organizational structure of the Company is unique in that the Company's four senior officers work as an executive team. Each of the four senior corporate officers has at least 29 years of retailing experience with the Company and each is actively engaged in the Company's buying activities, assuring direct involvement by senior management in store merchandising.

Reporting directly to members of the senior management team are buyers, district superintendents and department heads in charge of the Company's various operating areas. Twenty-five buyers and superintendents have a cumulative total of 521 years of experience. This base of experience coupled with innovative thinking contributes to the strength of the central management group.

Management expertise at the store level is assured by the Company's program of internal personnel promotions based on performance. The typical manager of a Big K store begins his career in the management training program until serving as an associate manager in one of the Big K stores or as manager of a Kuhn's Variety store. Elevation to associate manager or manager of a Kuhn's Variety store normally occurs after three to four years in the train-

Gilbert S. Fox, vice president and secretary (above center), C. Ray Nixon, senior warehouse manager (right) and James Hall, warehouse manager.

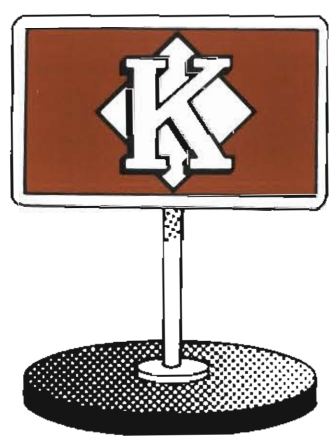


Carl L. Goldstein, vice president, treasurer (above left) and Donald M. Israel, controller.

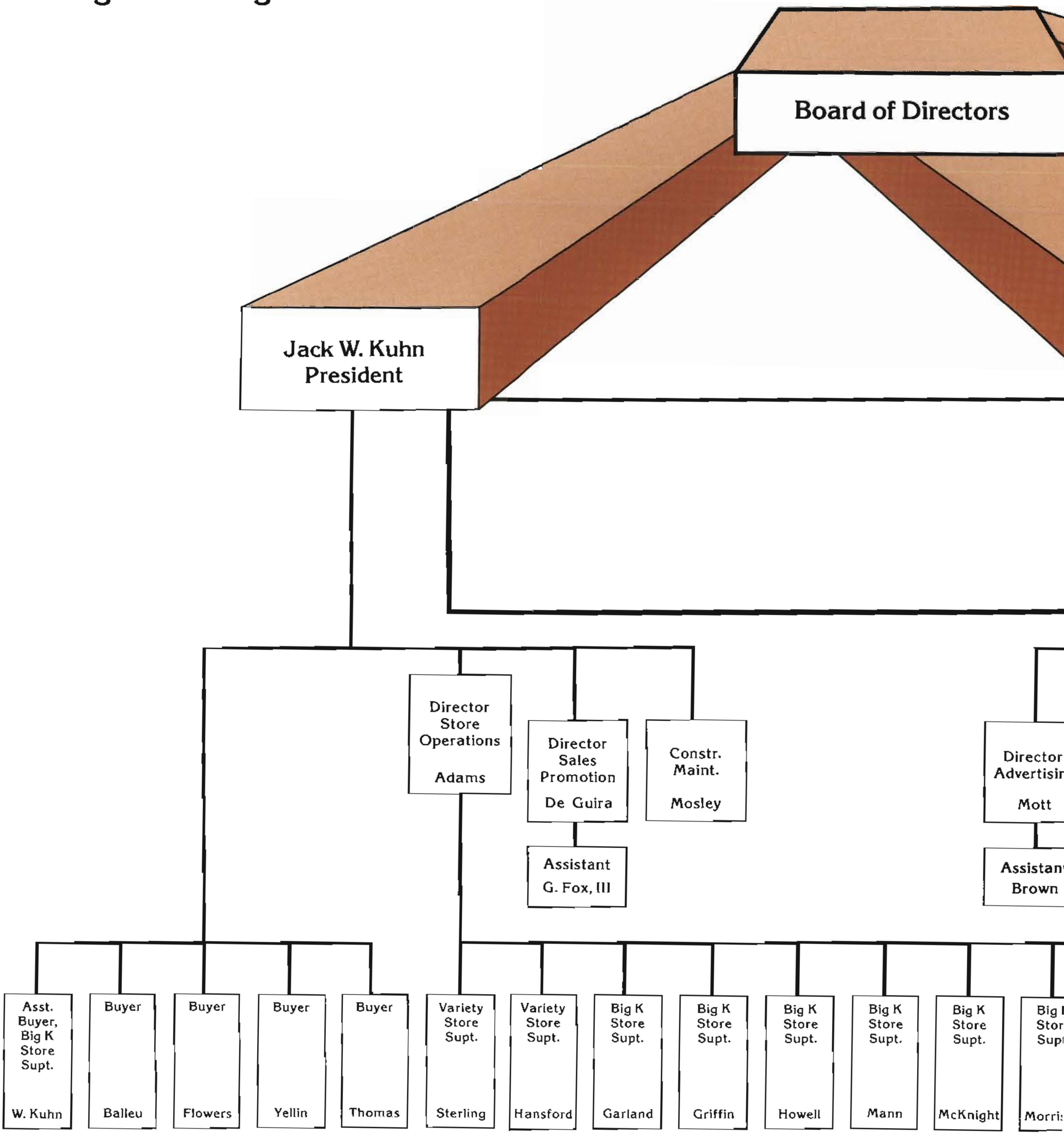
ing program, while six years of successful training is the usual requirement for becoming a Big K store manager.

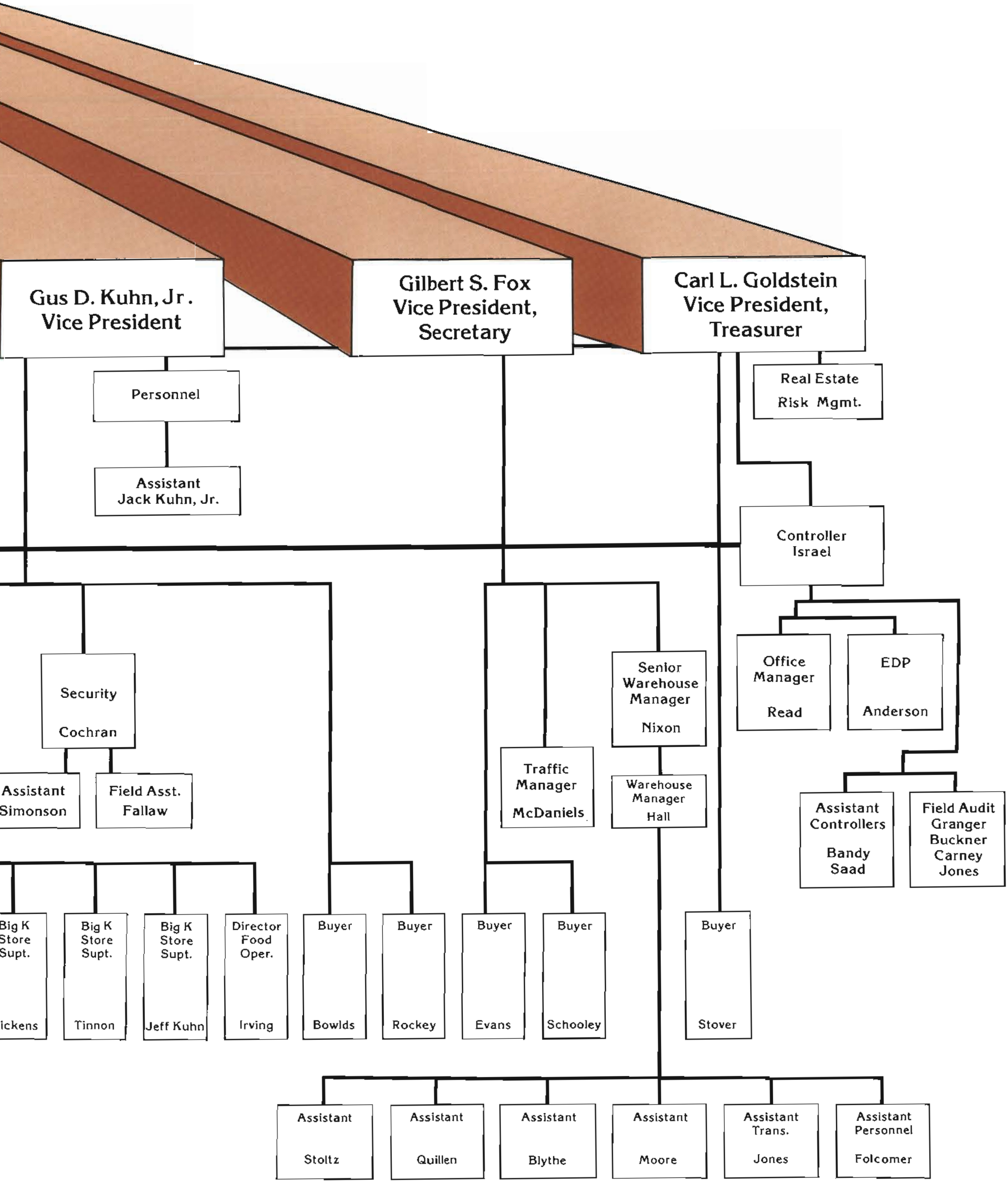
Kuhn's-Big K Stores Corp. has experienced success in attracting and retaining high caliber store management personnel, due primarily to its training and attractive incentive compensation programs, which are based on individual store profitability at year end, or year-to-year improvement comparisons. All full-time employees participate in the Company's non-contributory pension plan.

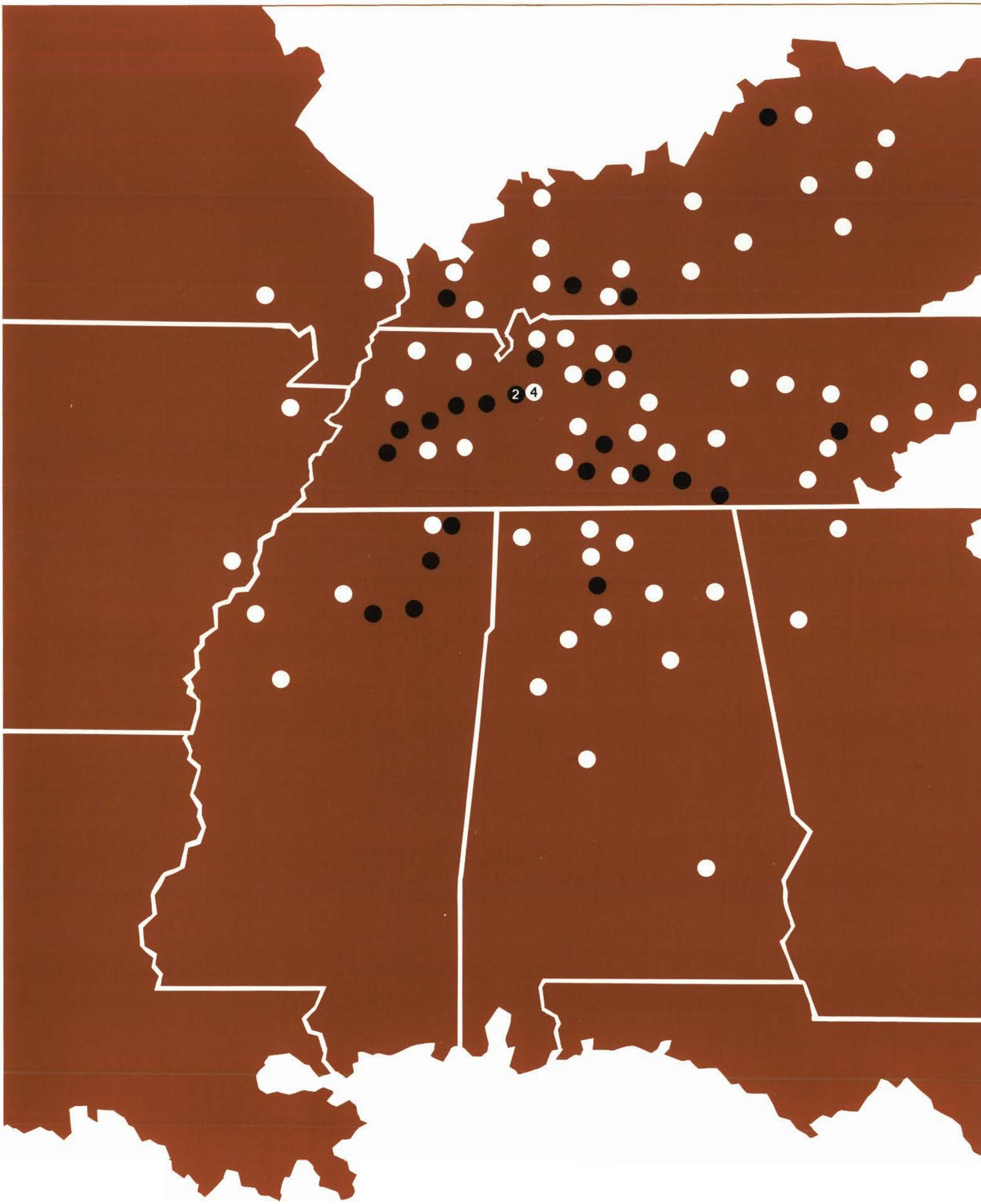
At December 31, 1975, Kuhn's-Big K Stores Corp. employed 4,912 people full or part-time.



Management Organization




Gus D. Kuhn, Jr. Vice President
Gilbert S. Fox Vice President, Secretary
Carl L. Goldstein Vice President, Treasurer
Personnel
Assistant Jack Kuhn, Jr.
Real Estate Risk Mgmt.
Controller Israel
Security Cochran
Assistant Simonson
Field Asst. Fallaw
Senior Warehouse Manager Nixon
Traffic Manager McDaniels
Warehouse Manager Hall
Office Manager Read
EDP Anderson
Assistant Controllers Bandy Saad
Field Audit Granger Buckner Carney Jones
Big K Store Supt. ickens
Big K Store Supt. Tinnon
Big K Store Supt. Jeff Kuhn
Director Food Oper. Irving
Buyer Bowlds
Buyer Rockey
Buyer Evans
Buyer Schooley
Buyer Stover
Assistant Stoltz
Assistant Quillen
Assistant Blythe
Assistant Moore
Assistant Trans. Jones
Assistant Personnel Folcomer



2
4

Store Locations At December 31, 1975

○ Big K Discount Department Stores

Alabama
Athens
Cullman
Decatur
Fort Payne
Guntersville
*Huntsville
Jasper
Selma
Sheffield
Talladega
*Tuscaloosa
Troy

Arkansas
Blytheville
West Helena

Georgia
Dalton
Rome

Kentucky
Bowling Green
Campbellsville
Danville
Elizabethtown
Franklin
*Frankfort
Glasgow
Henderson
Hopkinsville
Madisonville
Murray
Owensboro
Paducah
Richmond
Somerset
Winchester

Mississippi
Clarksdale
Corinth
Greenwood
Oxford

Missouri
Poplar Bluff
Sikeston

Tennessee
Alcoa
Athens
Clarksville
Cleveland
Columbia
Cookeville
Crossville
Dickson
Dyersburg
Elizabethton
Fayetteville
Gallatin
Greeneville
Harriman
Jackson
Kingsport
Lawrenceburg
Lebanon
Lexington
McMinnville
Morristown
Murfreesboro
Nashville
  Charlotte Square
  Fairlane Center
  Hermitage Center
  McHenry Center
Newport
Paris
Shelbyville
Springfield
Tullahoma
Union City

*Opened during 1975

● Kuhn's Variety Stores

Alabama
•Hartselle

Kentucky
Franklin
•Mayfield
Owensboro
Russellville
Shelbyville

Mississippi
Booneville
Corinth
•Pontotoc
Tupelo

Tennessee
Brownsville
Camden
Clarksville
Dickson
Fayetteville
•Gallatin
•Humboldt
Huntingdon
Lewisburg
Nashville
  •Charlotte Avenue
  •Belle Meade Plaza
Pulaski
South Pittsburg
Sweetwater
Waverly
Winchester

•Shopping center location

Seven-Year Financial Summary (1)

At December 31	1975	1974	1973	1972	1971	1970	1969
Number of Stores:							
Big K	70	67	57	43	30	25	20
Kuhn's Variety	26	27	27	30	31	33	34
Net Sales	$181,726,792	$150,026,373	$127,840,156	$95,947,982	$71,156,677	$58,585,959	$45,724,694
Leased Department Income and Other Miscellaneous Revenues	1,522,331	1,266,758	1,189,430	791,487	563,626	411,018	267,836
Total Revenues	183,249,124	151,293,131	129,029,586	96,739,469	71,720,303	58,996,977	45,992,530
Cost of Merchandise Sold and Buying and Occupancy Expenses	142,891,349	118,085,439	100,056,768	74,740,365	55,665,019	44,945,317	35,564,324
Selling, General and Administrative Expenses	32,467,944	28,648,877	22,685,342	16,701,461	12,537,352	10,420,221	8,169,798
Interest	832,831	1,274,315	646,076	188,988	102,603	199,673	175,956
Income Taxes	3,460,000	1,590,000	2,680,000	2,400,000	1,665,000	1,708,000	1,045,000
Net Earnings	3,597,000	1,694,500	2,961,400	2,708,655	1,750,329	1,723,766	1,037,452
Earnings Per Share of Common Stock (after provision for preferred dividend of $28,770)	2.08	.97	1.71	1.56	1.03	1.08	.64
Cash Dividends per Share	.10	.10	.10	.10	.10	.07	.03
Total Current Assets	42,271,509	35,724,677	36,768,868	22,787,254	18,065,939	13,393,592	10,738,135
Total Current Liabilities	15,967,647	12,196,138	13,218,673	8,907,466	6,436,324	5,989,025	4,868,906
Net Working Capital	26,303,862	23,528,539	23,550,195	13,879,788	11,629,615	7,404,567	5,869,229
Current Ratio	2.65 to 1.00	2.93 to 1.00	2.78 to 1.00	2.56 to 1.00	2.81 to 1.00	2.24 to 1.00	2.21 to 1.00
Common Shareholders' Equity	21,621,281	18,224,540	16,730,299	13,969,158	11,460,856	7,114,410	5,431,439
Shareholders' Equity per Share	12.61	10.63	9.76	8.15	6.68	4.55	3.47
Average Number of Shares of Common Stock Outstanding	1,714,878	1,714,878	1,714,878	1,714,878	1,677,378(2)	1,564,878	1,564,878

(1) Figures for 1969-71 have been restated due to the effect of the Federal income tax settlement for 1969, 1970 and 1971.

(2) 1,714,878 Common Shares Outstanding at December 31, 1971.

Management's Discussion And Analysis Of The Company's Operations

Revenues for 1975 and 1974 have each shown consistent increases of 21% and 17%, respectively over the previous year. The increase in revenue for 1975 can be attributed to a combination of an aggressive marketing and merchandising program; producing a substantial gain in average sales per store; favorable weather conditions in certain of the selling seasons; a Federal income tax rebate to customers; the opening of three new stores; and preliminary indications of improving economic conditions early in 1975.

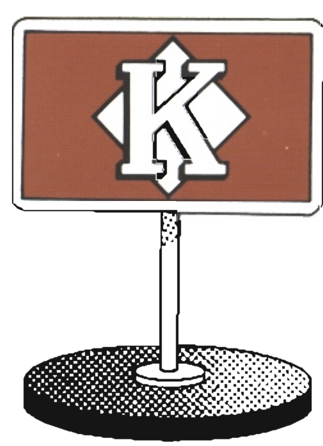
In 1974, there was a decline in some unit sales in previously existing stores, but additional sales were generated therein through inflationary price increases coupled with the opening of ten new stores.

The cost of merchandise sold and buying and occupancy expenses increase is in accordance with the revenue increase. As a percent of sales, these expenses were 78.63, 78.71, and 78.27 for 1975, 1974, and 1973, respectively. The percentage increase in 1974 over 1973 was mainly caused by increases in occupancy costs due to new stores opened in 1973 and 1974, coupled with depressed economic conditions in 1974. In 1975, the situation reversed itself as economic conditions improved. In addition, the stores opened in recent years experienced improvement and only three new stores were opened in 1975. In 1975 the Company changed its method of stating inventories from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method. This change had no effect on the cost of merchandise sold and buying and occupancy expenses in 1975 since market was lower than the LIFO cost.

Selling, general and administrative expenses have also increased in accordance with increased business volume. As a percent of sales these expenses were 17.87, 19.10, and 17.75 for 1975, 1974, and 1973, respectively. In 1974, examples of cost increases were found in advertising for promotional purposes, costs of wages and employee benefits, and expenses relevant to the management training program, among others. In 1975, cost decreases as a percent of sales were achieved in these areas due to improved productivity in the Company's stores, coupled with better cost controls, and in spite of minimum wage increases in 1975.

Interest cost in 1975 decreased significantly from 1974 because of lower average inventories throughout most of the year, and lower cost of money than in 1974. The increase in interest cost in 1974 resulted from higher cost of money, a full year of financing new long-term debt, along with the debt incurred with the property acquired for a proposed new distribution center. As a percent of sales, interest expense was .46, .85 and .51 in 1975, 1974 and 1973, respectively.

For additional information, please refer to management's comments in the message to shareholders.



Balance Sheet

Kuhn's-Big K Stores Corp.

	December 31 1975	1974
ASSETS		
CURRENT ASSETS:		
Cash (including certificates of deposits of $3,000,000 in 1975)	$ 7,196,419	$ 8,049,795
Commercial paper (at cost which approximates market)	2,993,403	—
Miscellaneous receivables	165,798	126,996
Inventories (Notes A-2 and B)	31,429,538	27,313,641
Deferred income taxes (Notes A-4 and G)	285,000	—
Prepaid expenses	201,351	234,245
TOTAL CURRENT ASSETS	42,271,509	35,724,677
OTHER ASSETS:		
Cash surrender value of life insurance	153,861	132,716
Deferred income taxes (Note A-4)	70,000	61,000
Other	8,909	8,727
	232,770	202,443
PROPERTY AND EQUIPMENT - at cost (Note A-3):		
Land	14,738	14,738
Land and other costs for proposed new distribution center (Note C)	1,404,737	1,404,737
Building	39,457	39,457
Leasehold improvements	444,912	489,098
Furniture, fixtures and equipment	3,434,790	3,095,411
	5,338,634	5,043,441
Less accumulated depreciation and amortization	2,699,235	2,513,133
	2,639,399	2,530,308
	$45,143,678	$38,457,428

See notes to financial statements.

LIABILITIES AND SHAREHOLDERS' INVESTMENT

	December 31 1975	1974
CURRENT LIABILITIES:		
Accounts payable	$ 8,173,180	$ 6,786,048
Accrued bonus and other compensation	2,876,859	2,008,741
Payroll, sales and other taxes payable	1,858,530	1,253,387
Accrued rentals	492,962	336,676
Federal and state income taxes	2,566,116	1,355,036
Current portion of long-term debt	—	456,250
TOTAL CURRENT LIABILITIES	15,967,647	12,196,138
LONG-TERM DEBT (Note C)	6,998,750	7,498,750
DEFERRED COMPENSATION (Note E)	145,000	127,000
LEASE COMMITMENTS (Note F)		
SHAREHOLDERS' INVESTMENT (Notes C and D):		
Preferred stock:		
7% Non-cumulative, $100 par value; authorized, 5,000 shares; issued, 4,110 shares, net of 63 shares held in treasury	411,000	411,000
Undesignated as to series, no par value; authorized, 1,000,000 shares; none issued		
Common stock, $1 par value; authorized, 3,000,000 shares; issued and outstanding, 1,714,878 shares	1,714,878	1,714,878
Additional paid-in capital	2,629,584	2,629,584
Retained earnings	17,276,819	13,880,078
	22,032,281	18,635,540
	$45,143,678	$38,457,428

Statement Of Earnings

Kuhn's-Big K Stores Corp.

	Year Ended December 31 1975	1974
REVENUES, excluding sales of leased departments	$183,249,124	$151,293,131
COSTS AND EXPENSES:		
Cost of merchandise sold and buying and occupancy expenses	142,891,349	118,085,439
Selling, general and administrative expenses	32,467,944	28,648,877
Interest	832,831	1,274,315
	176,192,124	148,008,631
EARNINGS BEFORE INCOME TAXES	7,057,000	3,284,500
INCOME TAXES (Notes A-4 and G)	3,460,000	1,590,000
NET EARNINGS	$ 3,597,000	$ 1,694,500
NET EARNINGS PER SHARE OF COMMON STOCK (Note A-6)	$ 2.08	$ .97

Statement Of Retained Earnings

	Year Ended December 31 1975	1974
BALANCE AT BEGINNING OF YEAR	$ 13,880,078	$ 12,385,837
NET EARNINGS	3,597,000	1,694,500
	17,477,078	14,080,337
CASH DIVIDENDS PAID:		
Common ($.10 per share)	171,489	171,489
Preferred ($7.00 per share)	28,770	28,770
	200,259	200,259
BALANCE AT END OF YEAR (Note C)	$ 17,276,819	$ 13,880,078

See notes to financial statements.

Statement of Changes In Financial Position

Kuhn's-Big K Stores Corp.

	Year Ended December 31 1975	1974
SOURCE OF FUNDS:		
Operations:		
Net earnings	$3,597,000	$1,694,500
Add noncash items:		
Depreciation and amortization	321,254	255,500
Increase in deferred compensation	18,000	19,000
Addition to deferred income taxes	(9,000)	(9,000)
Funds provided by operations	3,927,254	1,960,000
Additions to long-term debt	—	955,000
	$3,927,254	$2,915,000
APPLICATION OF FUNDS:		
Payments and current maturities on long-term debt	$ 500,000	$ 956,250
Additions to property and equipment - net	430,345	1,765,090
Cash dividends	200,259	200,259
Other - net	21,327	15,057
Increase (decrease) in working capital	2,775,323	(21,656)
	$3,927,254	$2,915,000
ANALYSIS OF WORKING CAPITAL CHANGES:		
Current asset changes:		
Cash and commercial paper	$2,140,027	$ 131,716
Inventories	4,115,897	(879,385)
Deferred income taxes	285,000	-
Other current assets	5,908	(296,522)
Net increase (decrease) in current assets	6,546,832	(1,044,191)
Current liability changes:		
Accounts payable and accrued expenses	3,016,679	(1,969,416)
Federal and state income taxes	1,211,080	490,631
Current portion of long-term debt	(456,250)	456,250
Net increase (decrease) in current liabilities	3,771,509	(1,022,535)
INCREASE (DECREASE) IN WORKING CAPITAL	$2,775,323	($ 21,656)

See notes to financial statements.

Notes To Financial Statements Years Ended December 31, 1975 and 1974

A. Summary of Significant Accounting Policies:

1. Corporate reorganization. At March 31, 1975, the Company liquidated its subsidiaries, all of which were wholly-owned, into the parent corporation. The business activities continued as usual and this reorganization had no effect on the Company's business operations.

2. Inventories. The merchandise inventories in the stores at December 31, 1975 are stated at the lower of cost, last-in, first-out (LIFO) method, or market as determined by the retail inventory method. Merchandise in the warehouse at December 31, 1975 is stated at the lower of cost, last-in, first-out (LIFO) method, or market. Previously, such inventories were stated at the lower of cost, first-in, first-out (FIFO) method, or market. See Note B.

3. Property and equipment. The cost of the building is depreciated, and leasehold improvements are amortized over their estimated useful lives primarily by the straight-line method. The costs of furniture, fixtures, and equipment are depreciated over their estimated useful lives by the double-declining balance method.

4. Income taxes. The provision for income taxes included federal and state income taxes and has been reduced by investment tax credits in the year such credits are claimed for income tax purposes. The current deferred income taxes arise from the LIFO adjustment. Non-current deferred taxes arise from timing differences between financial reporting and tax reporting for the deferred compensation plan. See Notes B and G.

5. Employee benefit plans. Pension costs are computed on the basis of accepted actuarial methods and include current service costs and the amortization of prior service costs over thirty years. It is the Company's policy to fund pension costs accrued. A reserve for the aggregate amount payable to participants in the Company's deferred compensation plan is being provided over the estimated years of employment to a retirement age of 65. See Note E.

6. Earnings per share. Earnings per share is calculated by deducting from net earnings the preferred dividend requirement of $28,770 and dividing the remainder by 1,714,878 common shares outstanding.

B. Inventories:

Effective January 1, 1975 the Company changed its method of stating inventories at the lower of cost or market from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method. Inventories at December 31, 1975 have been determined as follows:

Inventories at LIFO cost	$31,939,957
Adjustment to market	(510,419)
Inventories at lower of LIFO cost or market	$31,429,538

This change was made to achieve a better matching of cost and revenues under current inflationary conditions since under the LIFO method current costs are charged to income and the earlier costs, which are generally lower, are used to determine inventory. The change to LIFO cost had no effect on 1975 income for financial statements purposes, since market was lower than LIFO cost. Should prices continue to increase, earnings will be less using the LIFO method than they would be if the FIFO method were to be continued. There is no cumulative effect of the change as of the beginning of the year nor is it possible to determine proforma results for the prior year, because last year's ending inventory determined under the FIFO method is considered to be the beginning inventory for the current year, in applying the LIFO method.

Federal income tax regulations require statement of inventories at LIFO cost and do not permit the reduction of inventories to market if market is lower than cost. Generally accepted accounting principles, on the other hand, preclude the stating of inventories at amounts in excess of market. Accordingly, inventories are shown in the Company's federal income tax returns at $31,939,957 in 1975 and $28,856,179 in 1974. The related prepaid taxes of $285,000 are reported in the financial statements as current deferred income taxes.

C. Long-Term Debt:

Long-term debt consisted of the following:

	December 31	
	1975	**1974**
Term loan at 1½% above the bank prime rate, not to exceed 10% due in various payments to January 1, 1981	**$6,500,000**	$7,000,000
9½% Promissory note due January, 1979	**498,750**	955,000
	6,998,750	7,955,000
Less current portion	-	456,250
Long-term portion	**$6,998,750**	$7,498,750

Prior to December 31, 1975 the Company made a $500,000 term loan payment which was due January 1, 1976.

Aggregate annual principal payments applicable to long-term debt for years subsequent to December 31, 1975 are:

1977	$ 750,000
1978	750,000
1979	1,498,750
1980	1,000,000
1981	3,000,000
	$6,998,750

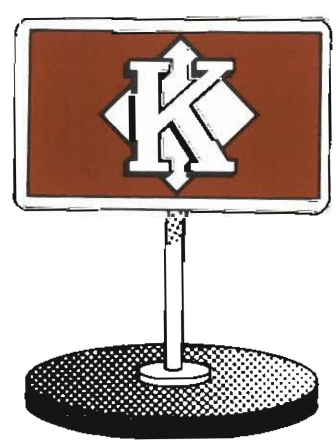
The Company has complied with restrictive covenants of its term loan agreement which requires the Company to maintain certain working capital levels and contains other provisions for limitations and restrictions as to indebtedness, rentals and cash dividends. At December 31, 1975, $2,657,250 of retained earnings was available for payment of dividends under the terms of the agreement.

The 9½% promissory note is collateralized by land for a proposed new distribution center. The land and other development costs amounting to a total of $1,404,737 are intended for a proposed new distribution center and office facility. No additional commitments have presently been made concerning this facility.

D. Stock Options:

The Company has a qualified stock option plan authorizing the granting of stock options for 112,500 shares of common stock to key employees at option prices not less than 100% of the fair market price on the date of grant. The options become exercisable in three equal annual installments, beginning one year after date of grant, and expire five years after date of grant. Changes in stock options for the two years ended December 31, 1975 are as follows:

	Reserved (Unoptioned)	Options Granted (In 1973 at $8.375 Per Share)	Options Exercisable
Shares at January 1, 1974	54,990	57,510	—
Options cancelled	4,020	(4,020)	—
Options that became exercisable	—	—	17,830
Shares at December 31, 1974	59,010	53,490	17,830
Options cancelled	5,880	(5,880)	(1,960)
Options that became exercisable	—	—	15,870
Shares at December 31, 1975	64,890	47,610	31,740



E. Employee Benefit Plans:

The Company maintains a non-contributory pension plan covering all full-time employees with one year of service and who will be able to complete ten years of continuous service by normal retirement date. The Company also has deferred compensation agreements with each of its four officers.

The total amount charged to operations with respect to the above plans was $319,480 for 1975 and $295,602 for 1974 which includes amortization of past service liability over a thirty year period. The actuarially computed value of vested benefits for all plans as of December 31, 1975 was less than the total of the pension funds, at market, and balance sheet accruals. The Company is in the process of amending the pension plan to meet the requirements of the Employee Retirement Income Security Act of 1974. The exact nature and extent of the amendments have not been determined and accordingly, no estimate of the ultimate effect on the costs of the plan can be made.

The Company has a bonus incentive plan for its officers, store supervisory and management personnel, and key home office and administrative personnel. The bonus plan is based primarily on profits. The total amount charged to operations with respect to the bonus plan was $ 2,234,652 for 1975 and $1,491,463 for 1974.

F. Lease Commitments:

The Company operates generally in leased premises. The Company also leases certain of its fixtures and, on a short-term basis, certain office, automotive and delivery equipment.

The aggregate minimum rental for leases outstanding as of December 31, 1975 are as follows:

Year Ending December 31,	Minimum Annual Rentals
1976	$ 8,375,000
1977	8,393,000
1978	8,186,000
1979	7,871,000
1980	7,385,000
1981-1985 (five years)	31,412,000
1986-1990 (five years)	27,875,000
1991-1995 (five years)	14,641,000
Beyond 20 years	1,612,000
	$115,750,000
Store buildings	$104,857,000
Warehouse	1,651,000
Fixtures and other	9,242,000
	$115,750,000

The Company leases for a twenty year term ending in 1989 the building containing its executive offices and central distribution center in Nashville, Tennessee from a partnership in which one of the Company's directors and the children of the Company's executive officers have an interest. Annual rental payments, under the lease, are $111,120; in addition the Company pays all taxes, insurance, and maintenance costs of the property.

In most instances, the leases for stores provide for additional rentals based on a percentage of sales. Many of the store leases have renewal provisions for five or more years. Substantially all of the leases are considered to be non-capitalized financing leases.

Costs and expenses include rent of $8,657,394 for 1975 and $7,773,570 for 1974, including additional rentals, based on sales, of $492,962 for 1975 and $336,676 for 1974.

F. Lease Commitments - Continued:

The present value of the aggregate minimum rental of leases considered to be financing leases is:

	Interest Rate			Present Value December 31	
	Low	High	Weighted Average	1975	1974
Stores and warehouse	4.8%	9.5%	8.6%	**$56,189,000**	$51,943,000
Fixtures and other	5.5%	10.5%	9.6%	**6,732,000**	8,152,000
				$62,921,000	$60,095,000

If leases considered as financing leases were capitalized, there would have been an additional charge to net earnings as calculated below:

	Year Ended December 31 1975		1974	
	Stores and Warehouse	Fixtures and Other	Stores and Warehouse	Fixtures and Other
Proforma amortization	**$2,860,000**	**$1,185,000**	$2,583,000	$1,127,000
Proforma interest	**4,166,000**	**643,000**	3,779,000	628,000
	7,026,000	**1,828,000**	6,362,000	1,755,000
Less rent actually charged	**5,788,000**	**1,690,000**	5,188,000	1,578,000
Difference before taxes	**1,238,000**	**138,000**	1,174,000	177,000
Tax effect	**620,000**	**70,000**	590,000	90,000
Difference after taxes	**$ 618,000**	**$ 68,000**	**$ 584,000**	**$ 87,000**

The above proforma amortization is based on the present value of all rentals (land, buildings and fixtures) incurred in leases considered as financing leases over the related lease periods.

G. Income Taxes:

The provision for income taxes is as follows:

	Year Ended December 31 1975	1974
Federal	**$3,510,760**	$1,432,635
State	**300,000**	303,000
Deferred as a result of:		
Adjustment of LIFO inventories to market	**(285,000)**	-
Increase in deferred compensation	**(9,000)**	(9,000)
Investment tax credits	**(56,760)**	(136,635)
	$3,460,000	$1,590,000

Accountant's Report

BOARD OF DIRECTORS AND SHAREHOLDERS
Kuhn's-Big K Stores Corp.
Nashville, Tennessee

We have examined the balance sheet of Kuhn's-Big K Stores Corp. as of December 31, 1975 and 1974, and the related statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Kuhn's-Big K Stores Corp. at December 31, 1975 and 1974, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

Nashville, Tennessee
March 11, 1976

Board of Directors

Jack W. Kuhn
President, Kuhn's-Big K Stores Corp.

Gus D. Kuhn, Jr.
Vice President, Kuhn's-Big K Stores Corp.

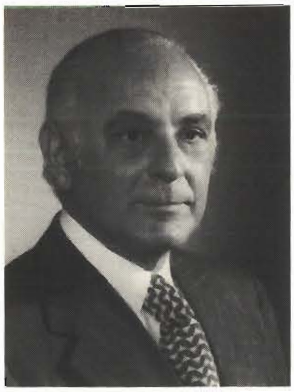
Gilbert S. Fox
Vice President, Secretary, Kuhn's-Big K Stores Corp.

Carl L. Goldstein
Vice President, Treasurer, Kuhn's-Big K Stores Corp.

Simon S. Weil
President, 1949-1964
Consultant to the Company

William W. Berry
Partner, Bass, Berry & Sims
Nashville

William F. Earthman
Chairman and Chief Executive Officer
Tennessee Valley Bancorp, Inc.
Nashville



Jack W. Kuhn

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Simon S. Weil

William W. Berry

William F. Earthman

ACCOUNTANTS
Touche Ross & Co., Nashville

COUNSEL
Bass, Berry & Sims, Nashville

TRANSFER AGENTS
Commerce Union Bank, Nashville
First National City Bank, New York

REGISTRARS
Third National Bank in Nashville
First National City Bank, New York

EXECUTIVE OFFICES
3040 Sidco Drive
Nashville, Tennessee 37204

KUHN'S-BIG K STORES CORP.
3040 Sidco Drive
Nashville, Tennessee 37204